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**FISCAL IMPACT STATEMENT**

**LS 6294**

**BILL NUMBER:** SB 18

**NOTE PREPARED:** Jan 22, 2008

**BILL AMENDED:** Jan 17, 2008

**SUBJECT:** Limitations on Debt.

**FIRST AUTHOR:** Sen. Dillon

**FIRST SPONSOR:**

**BILL STATUS:** As Passed Senate

**FUNDS AFFECTED:** X **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) *Bond Refinancing:* With respect to bonds payable from property taxes, special benefit taxes, or tax increment revenues, this bill prohibits a local issuing body from: (1) issuing refunding bonds that have a repayment date that is beyond the maximum term of the bonds being refunded; or (2) using savings resulting from refunding bonds or surplus proceeds for any purpose other than to maintain a debt service reserve fund, repay bonds, or reduce levies.

*Bond Payments:* The bill requires the local issuing body to pay interest and principal on bonds on a schedule that provides for substantially equal installment amounts and regular payment intervals, except when interest for a particular period has been paid from bond proceeds or an irregular payment schedule is needed: (1) so that total payments on all bonds issued by the local issuing body will remain substantially equal; (2) to permit accelerated principal payments; or (3) as necessary due to variations in the amount of tax increment finance (TIF) revenues available to pay debt service.

*Bond Term:* The bill provides that the maximum terms for property tax based obligations are: (1) the maximum applicable period under federal law for obligations issued to evidence loans under a federal program; (2) 25 years for TIF obligations; and (3) 20 years for other property tax based obligations.

*County Board of Tax and Capital Projects Review:* The bill provides that a capital project that will cost an amount that is at least equal to 0.5% of the total taxable property within the political subdivision is subject to review by a County Board of Tax and Capital Projects Review even if the cost of the project is less than \$7,000,000.

*Bond Information:* The bill requires a political subdivision to make certain information available to the public

at the public hearing on a preliminary determination to issue bonds or enter into a lease. It provides that when publishing notices of proposed bonds or leases, a political subdivision must include information concerning: (1) the political subdivision's current debt service levy and rate; and (2) the estimated increase to the political subdivision's debt service levy and rate that will result if the political subdivision issues the bonds or enters into the lease.

*Bond Referendum:* The bill requires lease rentals or bond issues for a controlled project to be approved at a local referendum if the preliminary determination to enter into the lease or issue bonds is made after June 30, 2008, and a sufficient petition requesting the referendum process is filed by the lesser of: (1) 100 persons who are either owners of real property within the political subdivision or registered voters residing within the political subdivision; or (2) 5% of the registered voters residing within the political subdivision. It provides that the petition and remonstrance process applies if the preliminary determination to enter into the lease or issue bonds is made before July 1, 2008. The bill also authorizes a school corporation that, for the most recently completed five school years, had an average increase of at least 4% in the school corporation's ADM to appeal to the county council for an exception to the referendum requirement. It allows a county council to approve the appeal if the county council finds that: (1) the bonds or lease will be for a project that is necessary to accommodate increased enrollment; or (2) delay in issuing the bonds or entering into the lease will result in a significant shortage of classroom space.

The bill provides that a project is not a controlled project for purposes of the referendum process if the project will not cost the political subdivision more than the lesser of: (1) \$7,000,000; or (2) the greater of 0.5% of the total taxable property within the political subdivision or \$200,000. It provides that a project that is in response to an emergency or natural disaster in a political subdivision and is approved by the county council is not a controlled project for purposes of the referendum process.

The bill makes conforming amendments.

**Effective Date:** July 1, 2008.

**Explanation of State Expenditures:** *Bond Term:* It is unknown the number of state bonds currently longer than the bill limits. The fiscal impact would probably be minor.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** *Bond Refinancing:* The impact would depend on the number of bonds refinanced. The bill would result in a net saving for bonds being refinanced.

*Bond Payments:* The bill would more accurately reflect the fiscal impact of a bond issuance. The fiscal impact is unknown. The total cost of a bond increases if principal payments are deferred and decreases if the principal is paid earlier.

*Bond Term:* It is unknown the number of local bonds with terms longer than the bill limit. The fiscal impact would probably be minor. The longer the term of the bond, the lower the annual payments but the cost of interest is increased.

*County Board of Tax and Capital Projects Review:* Currently, a unit's capital project is required to be reviewed by the County Board of Tax and Capital Projects Review if the project is a controlled project more than \$7 M. The bill would require review of projects more than the lesser of \$7 M or 0.5% of the unit's AV

to be reviewed. There are about 2,773 local units. The bill would reduce the threshold for about 499 of the tax units. The impact would depend on changes made to projects that don't currently require review but would require review under the bill.

**Background:** A notice of the intent to issue bonds or enter into a lease must include the following information:

1. The maximum term of the bonds or lease.
2. The maximum principal amount of the bonds or the maximum lease rental for the lease.
3. The estimated interest rates that will be paid and the total interest costs associated with the bonds or lease.
4. The purpose of the bonds or lease.
5. A statement that any owners of real property within the political subdivision or registered voters residing within the political subdivision who want to initiate a petition and remonstrance process against the proposed debt service or lease payments must file a petition not later than 30 days after publication.
6. With respect to bonds issued or a lease entered into to open:
  - a. a new school facility; or
  - b. an existing facility that has not been used for at least three (3) years and that is being reopened to provide additional classroom space;
  - c. the estimated costs the school corporation expects to incur annually to operate the facility.

(Revised) *Bond Information:* The additional information include in the bond notice could increase the local units publishing costs. The increase would probably be minor.

(Revised) *Bond Referendum:* The referendum will be held during a general or primary election unless there is no election within 6 months from when the county auditor certifies the question if the lessor of 100 voters or property tax payers or 5% of the voters requested a referendum. The increase in costs for controlled projects if a referendum is required would probably be minor except in years no elections are held. The impact of the referendum on capital projects would depend if more projects were disapproved with the referendum process than the current petition and remonstrance process. [School corporations request about 50 capital projects annually with a value of about \$1.2 B. It is unknown the number or value of civil unit capital projects.]

**Explanation of Local Revenues:**

**State Agencies Affected:** All.

**Local Agencies Affected:** All.

**Information Sources:**

**Fiscal Analyst:** Chuck Mayfield, 317-232-4825.